FISCAL NOTE

Bill #: SB0028

Title: Decouple state income taxes from federal accelerated depreciation

Primary Sponsor: Steve Doherty

Status: As Introduced

Sponsor signature Date

Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
Revenue:			
General Fund	$8,540,000	$3,684,000	$(720,000)
Net Impact on General Fund Balance:	**$8,540,000**	**$3,684,000**	**$(720,000)**

Yes	No		Yes	No	
	X	Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. Earlier this year, the Department of Revenue conducted an extensive and detailed study of the potential impacts of the 30% bonus depreciation provisions of the federal *Job Creation and Worker Assistance Act of 2002* (JCWWA) on Montana corporation license tax revenue. That study concluded that the 30% bonus depreciation provisions of that act would *decrease* revenue to the state by $2.986 million in FY 2002; by $5.051 million in FY 2003; and by $3.468 million in FY 2004.
2. In the long-term, the revenue impact from accelerated depreciation provisions nets to zero, as accelerated depreciation taken today results in reduced deductions for depreciation in later years. Consequently, the department's study showed revenues increasing to the state beginning in FY 2005 by $678,000; and by $3.667 million in FY 2006, from the corporation license tax.

3. This bill would require taxpayers to add back to taxable income 85% of any bonus depreciation received for assets placed in service after September 10, 2001. Corporate taxpayers have already filed all tax returns that resulted in the fiscal 2002 impact of $(2.986) million. But, under terms of this bill, will have to add back 85% of the bonus depreciation taken on those returns in FY 2003. In addition, taxpayers will only be allowed to take only 15% of what would otherwise be allowed under current law for bonus depreciation for FY 2003. Relative to current law, this increases revenue in FY 2003 by $6.832 million (85% of $2.986 million, plus 85% of $5.051 million).
4. The impact of this bill in FYs 2004 and 2005 is equal to 15% of the revenue impact that would otherwise occur under current law, or $(520,000) in FY 2004, and $102,000 in FY 2005. This represents a difference from current law of $2.947 million in FY 2004 ($3.468 - $0.520 million); and $(576,000) in FY 2005 ($678,000 - $102,000 = $576,000).
5. The Congressional Research Service has estimated that approximately 80% of the federal impact from the 30% bonus depreciation provisions is attributable to corporate taxpayers, while the remaining 20% is attributable to individual income taxpayers. Because the department has not done any analysis of the impact of these provisions on individual income taxpayers, this fiscal note assumes that 80% of the total impact on the state is from corporate taxpayers, while 20% is from individual income taxpayers. The total revenue impact in each FY is derived by dividing the corporate tax impacts discussed above by 0.80 to produce an estimate for both corporate and individual income taxpayers. This results in a net impact to the state general fund of $8.540 million in FY 2003 ($6.832/0.80 = $8.540); $3.684 million in FY 2004 ($2.947/0.80 = $3.684 million); and ($720,000) in FY 2005 [$(576,000)/0.80 = $(720,000)].

FISCAL IMPACT:

	FY 2003 Difference	FY 2004 Difference	FY 2005 Difference
Revenues:			
General Fund (01)	$8,540,000	$3,684,000	$(720,000)
Net Impact to Fund Balance (Revenue minus Expenditure):			
General Fund (01)	$8,540,000	$3,684,000	$(720,000)

LONG-RANGE IMPACTS:

This bill will impact the state general fund for years after FY 2005. Revenue to the state general fund will be lower in FYs 2006 and after because of this bill. Revenues are estimated to be reduced by $3.342 million in FY 2006 and $2.412 million in FY 2007. These impacts will gradually drop until the impact reaches zero. This could take up to 20 years, depending on the mix of assets for which the bonus depreciation is taken and the depreciation schedules governing those assets.